



OFFICE OF INSPECTOR GENERAL

UNITED STATES POSTAL SERVICE

Delivery Operations – Additional Carrier Services

Management Advisory Report

Report Number
DR-MA-14-004-DR

June 3, 2014





OFFICE OF INSPECTOR GENERAL

UNITED STATES POSTAL SERVICE

Highlights

Decreasing mail volume combined with increasing net losses requires the Postal Service to address budget concerns and increase profits. Revenue generating opportunities through the offering of additional carrier services could improve the Postal Services finances.

Background

The U.S. Postal Service's mail volume declined from about 171 to 160 billion mailpieces from fiscal years (FY) 2010 to 2012. The Postal Service had net losses of \$5 billion in FY 2011 and \$15.9 billion in FY 2012. It prepared a *Five-Year Business Plan* to address budget concerns and increase profits. Most of the proposed efforts to reduce budget deficits are cost-cutting initiatives, such as eliminating Saturday delivery, recalculating retirement prefunding obligations, and downsizing the workforce.

But revenue-generating opportunities could also improve the Postal Service's finances. Taking advantage of the delivery "last mile" by adding carrier services not directly related to mail delivery could increase revenue and enhance the Postal Service brand.

Our objective was to assess opportunities for the Postal Service to add carrier services to delivery operations.

What the OIG Found

The Postal Service could increase the value of delivery operations, bolster revenue, and address community needs

by offering additional carrier services. We identified a variety of services that could generate revenue, such as monitoring services for the elderly, collecting air quality data, verifying identification, delivering prescriptions on the same day, updating maps, and reporting on traffic conditions. Some of these ideas may not be immediately feasible due to legal restrictions, but management should consider them.

Additionally, the Postal Service could generate revenue immediately by selling advertising space on its delivery vehicles. A market analysis the Postal Service conducted during our review estimated revenue potential of about \$15 million in FY 2014 and \$30 million in FY 2015 from this initiative.

What the OIG Recommended

We recommended the executive vice president, chief marketing and sales officer, in coordination with the vice president, Delivery and Post Office Operations, develop a strategy to identify, evaluate, and offer the most promising additional carrier services, including ways to overcome identified barriers. We also recommended they jointly conduct a pilot test on delivery vehicle advertising and gather sufficient data to support a decision on this concept.



Transmittal Letter

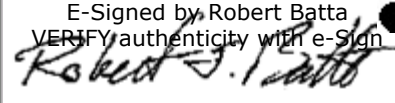


OFFICE OF INSPECTOR GENERAL
UNITED STATES POSTAL SERVICE

June 3, 2014

MEMORANDUM FOR: NAGISA MANABE
EXECUTIVE VICE PRESIDENT, CHIEF MARKETING AND
SALES OFFICER

EDWARD F. PHELAN, JR.
VICE PRESIDENT, DELIVERY AND POST OFFICE
OPERATIONS

E-Signed by Robert Batta
VERIFY authenticity with e-Sign


FROM: Robert J. Batta
Deputy Assistant Inspector General
for Mission Operations

SUBJECT: Management Advisory Report – Delivery Operations –
Additional Carrier Services
(Report Number DR-MA-14-004)

This report presents the results of our review of Delivery Operations – Additional Carrier Services (Project Number 13XG018DR000).

We appreciate the cooperation and courtesies provided by your staff. If you have any questions or need additional information, please contact Rita F. Oliver, director, Delivery and Post Office Operations, or me at 703-248-2100.

Attachment

cc: Corporate Audit and Response Management

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Findings

The Postal Service could increase the value of delivery operations, bolster revenue, and address community needs by offering additional carrier services. We identified a variety of services that could generate revenue, such as monitoring services for the elderly, collecting air quality data, verifying identification, delivering prescriptions, updating maps, and reporting on traffic conditions.

Introduction

This report presents the results of our self-initiated review of the U.S. Postal Service’s potential to expand carrier services. Additional carrier services are those not directly related to the delivery of letters, printed matter, or mailable packages.¹ The objective of this review was to assess opportunities for the Postal Service to add carrier services to delivery operations (Project Number 13XG018DR000). See [Appendix A](#) for additional information about this review.

The Postal Service has been operating at a deficit because of declining mail volume and revenue.² To address budget issues and increase profit, the Postal Service proposed several cost-cutting initiatives in its *Five-Year Business Plan*,³ such as eliminating Saturday delivery, recalculating retirement prefunding obligations, and downsizing the workforce. The Postal Service’s efforts to eliminate budget deficits did not focus on taking advantage of the delivery “last mile.” Additional carrier services could increase revenue and enhance the Postal Service brand.

Conclusion

The Postal Service could increase the value of delivery operations, bolster revenue, and address community needs by offering additional carrier services. We identified a variety of services that could generate revenue, such as monitoring services for the elderly, collecting air quality data, verifying identification, delivering prescriptions on the same day, updating maps, and reporting on traffic conditions.

Some of these ideas may not be immediately feasible due to legal restrictions, but management should consider them. However, the Postal Service could generate revenue immediately by selling advertising space on its delivery vehicles.

The Postal Service agreed with the premise of advertising on its delivery vehicles and studied the issue during our review. A market analysis the Postal Service conducted during our review estimated a revenue potential of about \$15 million in FY 2014 and \$30 million in FY 2015 from this initiative. However, officials said revenue opportunities would be hampered by market saturation and because the Postal Service could only advertise a few products and services on delivery vehicles without harming its brand (see [Appendix B](#)).

Potential Additional Carrier Services

To remain viable and provide needed services to the public, the Postal Service could offer additional carrier services.⁴ As summarized below, proposed legislation and prior U.S. Postal Service Office of Inspector General (OIG) reports have recommended several additional carrier services. Customers surveyed in an OIG-sponsored blog suggested additional carrier services the Postal Service could offer in communities to help sustain a viable presence.⁵ Our additional input and that of several stakeholders, along with a review of foreign posts’ websites, also provided several ideas for additional carrier services.

¹ A Postal Service product need not be mailed to constitute a “postal” offering. Specifically, the Postal Accountability and Enhancement Act (PAEA) defines a Postal Service product as “delivery of letters, printed matter, or ‘mailable’ packages, including acceptance, collection, sorting, transportation, or other functions ancillary thereto,” PL 109-435, §101.

² Postal Service mail volume declined from about 171 to 160 billion pieces from fiscal years (FY) 2010 to 2012. In addition, the Postal Service had losses of \$5 billion in FY 2011 and \$15.9 billion in FY 2012.

³ *Plan to Profitability, Five-Year Business Plan*, dated February 16, 2012.

⁴ Some carrier services strategies focus on carrier equipment.

⁵ The OIG posted a blog on January 16, 2012, titled *What Else Could Postal Carriers Do?* about carriers handling non-postal related tasks and additional services.

Additional Carrier Services Suggested in Proposed Legislation

In 2009, the Postal Service asked Congress⁶ to change the law so it could offer non-postal products and services to generate additional revenue. Several bills have been introduced that propose removing existing prohibitions and suggest new products and services the Postal Service could offer to raise revenue.

For example, the 21st Century Postal Service Act of 2012 (S.1789), which passed in the Senate on April 26, 2012, would allow the Postal Service to offer non-postal products or services if the Postal Regulatory Commission (PRC) determines they:

- Use the Postal Service's processing, transportation, delivery, and retail network, or its technology.
- Respond to public interest and a demonstrated demand for the Postal Service to offer them.
- Do not create unfair competition with the private sector.
- Have the potential to improve the Postal Service's financial condition.

Congress has not enacted any of the proposed legislation. Although S. 1789⁷ passed in the Senate, it did not pass in the House of Representatives before the 112th Congress ended on January 3, 2013. The bill was reintroduced as the Postal Reform Act of 2013 (S. 1486)⁸ and a congressional committee revised its status to "Reported by Committee" in February 2014.

Additional Carrier Services

Ideas for additional carrier services came from several sources. We surveyed the public in an OIG-sponsored blog seeking suggestions for additional carrier services the Postal Service could offer to help sustain a viable presence in communities. The OIG also suggested additional carrier services in a prior report,⁹ including offering small businesses an easy and low-cost way to distribute advertising flyers and circulars and sell advertising space in Postal Service outlets and on delivery vehicles. We also added our input and that of several stakeholders (see [Table 1](#)).

⁶ November 5, 2009, testimony of then-Postal Service president of Mailing and Shipping Services before the House of Representatives Committee on Oversight and Government Reform, Subcommittee on Federal Workforce, Postal Service, and the District of Columbia.

⁷ 21st Century Postal Service Act of 2012.

⁸ S. 1486 – 113th Congress Postal Reform Act of 2013, introduced August 1, 2013.

⁹ *Revenue Generation Strategic Report* (Report Number MS-MA-10-002, dated September 28, 2010).

Table 1. Suggested Additional Letter Carrier Services

Suggested Additional Letter Carrier Services	Blog	OIG
1. Monitoring Services for Elderly and/or Disabled Customers	✓	
2. Collection of Air Quality Details on Delivery Vehicles		✓
3. Identification Verifications		✓
4. Door-to-Door Services and Sales from Businesses to Customers – Same Day Delivery for Groceries and Prescriptions	✓	✓
5. Door Handle Flyers	✓	✓
6. Map Updates and Traffic Reporting Services	✓	
7. Meals on Wheels for Senior Citizens	✓	
8. Security Monitoring Services for Customers on Vacation	✓	
9. Selling Advertising Space on Postal-Owned Delivery Vehicles	✓	✓
10. Door-to-Door Service – Collection for Charities	✓	
11. Lost Luggage Forwarding Services for Airlines	✓	
12. Serving Court Documents	✓	
13. Water, Gas, or Electric Meter Reading Services	✓	
14. Crime Prevention Services – Cameras Mounted on Delivery Vehicles	✓	
15. Delivery of Heavy Items		✓
16. Collection of Census Data		✓
17. Collection of Take Away Boxes for Recycling and Clothing		✓
18. Bandwidth Reading		✓
19. Downloading Bill Payments		✓
20. Scanner Usage on Delivery Routes for Cash-on-Delivery		✓
21. Delivery of Dry Cleaning to Customers		✓
22. Detection of Natural Gas Leaks		✓

Source: Results of the OIG's January 16, 2012, blog titled, *What Else Could Postal Carriers Do?* Also, other input obtained during the review.

Implementation of the above suggestions, described in more detail below, may require higher investments, changes in core hours, additional training and equipment, or other adjustments.

1. Monitoring Services for Elderly and/or Disabled Customers – Private companies provide 24/7 medical alert coverage to elderly and/or disabled customers who wish to live an independent life. Postal Service carriers perform this service informally through the Carrier Alert program. As part of the program, carriers watch for customers' mail volume to increase in mailboxes and monitor how long it takes customers to retrieve their mail. The Postal Service could partner with elderly and/or disabled monitoring companies, which would allow carriers to provide feedback on the status of customers on routes as part of the Carrier Alert program. This would generate revenue and keep family members informed about relatives with mobility issues.

2. Collection of Air Quality Details on Delivery Vehicles – In partnership with air quality companies, carriers would perform this service using specially equipped vehicles that would collect air quality measurements while they delivered mail on their regular routes. Postal Service carriers perform universal delivery services to delivery points 6 days a week. Air quality devices mounted on carriers' vehicles would provide wireless feedback to companies without interfering with the carrier's mail delivery.
3. Identification Verification – The Postal Service could partner with companies to verify individuals for employment with the government or private companies. The Postal Service has delivery routes that require carriers to exit delivery vehicles to perform door-to-door delivery service.
4. Door-to-Door Delivery Services and Sales from Businesses to Customers – Same Day Delivery for Groceries and Prescriptions – This service would provide door-to-door delivery of groceries and same day prescriptions from businesses to customers. Postal Service carriers are doing this informally through the Customer Connect and Rural Reach programs. Through these programs, carriers leverage their business relationships with customers by identifying new business opportunities and obtaining customer concurrence to meet with a sales representative to generate revenue. Carriers could perform similar services with package delivery containing prescriptions and non-perishable groceries. The Postal Service could partner with companies for same day delivery of groceries or prescriptions to generate revenue and help customers who have mobility issues.
5. Door Handle Flyers – This service would have carriers place flyers on door handles. The Postal Service has delivery routes that require carriers to exit delivery vehicles to perform door-to-door delivery service. Carriers perform similar services with mail delivery of advertising information.
6. Map Updates and Traffic Reporting Services – This would provide electronic map updates. Mapping of stable residential areas may be on a one-time basis with annual updates. In the Postal Service's Metro Post Same Day Delivery service pilot test in the San Francisco District, carriers used Smartphones equipped with Google Maps for directions and included traffic feedback to Metro Post operations. Mobile sensors on vehicles could obtain this data as letter carriers perform street deliveries. Postal Service carriers perform universal delivery services for delivery points 6 days a week. The Postal Service could partner with companies for map updates and traffic reporting services. Map updates and traffic reporting devices mounted on carriers' vehicles would provide wireless feedback to companies without interfering with the carrier's mail delivery duties.
7. Meals on Wheels for Senior Citizens – This agency provides millions of meals a day to senior citizens in their homes through volunteer services using specialized vehicles. The Postal Service would need to modify its current delivery fleet to include specialized equipment that meets meal delivery requirements.
8. Security Monitoring Services for Customers on Vacation – This would provide monitoring of customers' property while they are on vacation for fires, unlawful entries, and water damage. Postal Service carriers are already performing it on a limited, informal basis through the Carrier Alert program. As part of the program, carriers report fires, unlawful entries, and water damage they observe during street delivery on park-and-loop, foot, curbside, and dismount routes. Customers can ask the Postal Service to hold their mail safely at local post offices while they are away from home. The Postal Service could partner with security monitoring companies for carriers to provide feedback on the status of customers' property on their routes as part of the Carrier Alert program. There may be concerns regarding security monitoring, since this would be an extension of law enforcement agencies' duties.

9. Selling Advertising Space on Postal-Owned Delivery Vehicles – The Postal Service could generate revenue by selling advertising on its delivery and collection vehicles,¹⁰ providing an extensive presence throughout the U.S. The Postal Service has property leases with advertisers for rooftop spaces and excess land. There may be concerns regarding market saturation and advertising information that could compromise the Postal Service brand. The Postal Service could advertise its products and employment opportunities rather than advertising a competitor's products and services to increase public awareness and generate revenue.
10. Door-to-Door Service – Collections for Charities – This service would provide door-to-door collections for charities. The Postal Service has delivery routes that require carriers to exit delivery vehicles to perform door-to-door delivery service. The Postal Service could partner with charitable organizations for carrier pickup and delivery to generate revenue and create goodwill in communities.
11. Lost Luggage Forwarding Services for Airlines – This service would provide lost or delayed luggage forwarding to airline customers 24/7. Carriers have historically delivered lost luggage to customers. The Postal Service could form partnerships with airlines and luggage-forwarding vendors as part of the “Metro Post Same Day Delivery” program. As part of the program, vendors would request pickup of lost luggage for carriers to deliver to customers the same day. The Postal Service partnerships could also include vendors that drop shipments of customers' luggage at unit locations for carriers to deliver to customers on their routes.
12. Serving Court Documents – The carrier would serve court documents, such as warrants, foreclosure notices, and subpoenas, to customers. Postal Service carriers perform similar services with delivery of Registered and Certified Mail that may include court documents requiring an addressee signature.
13. Water, Gas, or Electric Meter Reading Services – This would provide meter readings for utility companies that manually or electronically perform such work. Postal Service carriers perform universal delivery services for delivery points 6 days a week. The Postal Service could mount meter reading devices on carriers' vehicles and provide wireless feedback to companies on customers' usage without interfering with mail delivery service.
14. Crime Prevention Services – Cameras Mounted on Delivery Vehicles – This service would monitor customers' neighborhoods for crime. Postal Service carriers would report suspicious activities or unlawful entries during normal street delivery on routes that include park-and-loop, foot, curbside, and dismount. Postal Service carriers are performing some crime prevention service informally through the Carrier Alert program. There may be concerns about cameras mounted on delivery vehicles due to possible liabilities related to customers' perception of carriers monitoring their activities as agents of law enforcement. The Postal Service could partner with companies for customer home monitoring services while carriers deliver mail on their routes to generate revenue.
15. Delivery of Heavy Items – This service would provide delivery of larger, heavier items, such as pianos, furniture, equipment, or oversized containers. The Postal Service has restrictions on the size and weight for mailpieces that carriers lift and deliver to customers which would need to be examined.
16. Collection of Census Data – This service would have carriers collect census data for federal and state government agencies. The Postal Service has delivery routes that require carriers to leave their delivery vehicles to perform door-to-door delivery.

¹⁰ *Revenue Generation Strategic Report* (Report Number MS-MA-10-002, dated September 28, 2010).

Carriers perform similar services with the mail delivery and collection of census data through the normal mailstream. The Postal Service could partner with data-gathering companies to collect census data, but expressed concern regarding the time carriers would need to interview customers to collect detailed information. Concerns may exist regarding the impact on the job market for others who perform this specific, temporary work.

17. Collection of Take Away Boxes for Recycling and Clothing – This service would have carriers collect donated clothing for agencies that help individuals with financial issues. The Postal Service has delivery routes that require carriers to leave their delivery vehicles to perform door-to-door delivery which would be advantageous if the Postal Service collects for donations. The Postal Service could partner with recycling and charitable organizations for carrier pickup and delivery to generate revenue and create goodwill. The Postal Service could use excess space in their existing facilities as staging or collection points for donated items.
18. Bandwidth Reading – Postal Service vehicles cover the same geographic territory 6 days a week, providing the potential for amassing valuable data that can be used to track changes over time. Sensors could be attached to postal-owned delivery vehicles to monitor the radio spectrum such as broadcast radio and television and satellite television to collect data on signal gaps and improve signal quality and reach. Also, sensors can measure the availability and performance of wireless networks for both broadband and mobile phone service. None of the monitoring would add time to the delivery route.
19. Downloading Bill Payments – This service would allow customers to pay bills using a mobile application on the carrier's Smartphone. The Postal Service has delivery routes that require carriers to exit delivery vehicles to perform door-to-door delivery. The Postal Service could partner with billing companies and carriers could obtain customer payments, provide customers with new technology to generate revenue, and help customers who have limited Internet access or mobility issues.
20. Scanner Usage on Delivery Routes – This service would allow customers to pay for Cash-on-Delivery parcels using credit and debit cards. The Postal Service would install payment acceptance applications on carriers' Smartphones that would allow them to process payments. The carrier could obtain customer payments, provide customers with new technology to generate revenue, and help customers who have limited Internet access or mobility issues.
21. Delivery of Dry Cleaning to Customers – This service would deliver clothing that a customer drops off at a local dry cleaner while the carrier is on his/her normal route. The Postal Service has delivery routes that require carriers to leave their delivery vehicles to perform door-to-door delivery service. Vehicles would have to be properly equipped with garment bags to prevent damage. The Postal Service could partner with dry cleaning companies for carrier pickup and delivery of customers' dry cleaning to generate revenue and help customers who have mobility issues.
22. Detection of Natural Gas Leaks – This service would use specialized sensing equipment mounted in city delivery vehicles to passively monitor and identify the potential presence or buildup of natural gas as carriers are delivering mail along their established daily routes. Leaks would be reported to the natural gas suppliers to repair timely and safely.¹¹

¹¹ Internal Technical Brief -Strengthening the First and Last Mile, November 13, 2012,

We also identified some additional services foreign posts offer.¹² India Post, for example, allows carriers to collect data to help establish the nation's consumer price index. The Austrian Post also allows the shipment of limited amounts of hazardous material and provides temperature-controlled shipping containers for temperature-sensitive shipments. The Denmark Post provides welfare equipment for elderly and chronic patients, including delivery and pickup services, and mobile postage, where customers can buy stamps directly using their mobile phones or Smartphones.

Concerns With Expanding Additional Carrier Services

There are some concerns with the Postal Service expanding additional carrier services in delivery operations. These include:

- PRC approval.
- Redefining the PAEA.
- Investment costs and revenue generation.
- Competition.
- Workers' Compensation and Third-Party Liability.

¹² These include Swiss Post, Poste Italiane, Japan Post, Royal Mail, Correios de Portugal, and SingPost websites.

Offering Advertising Space on Postal-Owned Delivery Vehicles

We identified one opportunity indirectly related to carriers that is immediately viable. The Postal Service could generate revenue by selling advertising space on delivery vehicles. The Postal Service already leases its property (such as rooftop space and excess land) to advertisers and cellular providers for billboards and antennae towers. In FY 2012, the Postal Service had about 600 non-sale lease agreements with non-government entities.

The Postal Service has 190,897¹³ vehicles that carriers use to deliver and collect mail 6 days a week throughout U.S. neighborhoods. As illustrated in Figures 1 through 4, the fleet of vehicles could provide space for advertising.¹⁴

Figure 1. Long-Life Vehicle



Figure 2. 2-Ton Delivery Vehicle



Figure 3. Mini-Van



Figure 4. Flexible Fuel Vehicle



Source: Postal Service Blue Pages.

With its strong brand name in the marketplace, the Postal Service could generate revenue through this initiative. Postal Service Marketing and Delivery managers agreed that placing advertising space on postal-owned delivery vehicles is a viable option. They studied the issue and conducted a market analysis during our review.¹⁵ The Postal Service estimates it could generate revenue of about \$15 million in FY 2014 and \$30 million in FY 2015. The study said revenue generation would be restricted because of market saturation and the ability to advertise only a few products or services on delivery vehicles without harming the Postal Service brand.

¹³ The 2012 *Annual Report on Form 10-K* shows the number of vehicles, including 1/2 to 2-1/2 ton delivery and collection vehicles for FY 2012.

¹⁴ The OIG is conducting a review on replacing the delivery fleet.

¹⁵ Universal McCann media agency market analysis results, dated May 21, 2013.

Recommendations

We recommend management develop and implement a strategy to identify, evaluate and offer the most promising additional carrier services.

We also recommend management jointly conduct a pilot test on delivery vehicle advertising and gather sufficient data to support a decision on this concept.

We recommend the executive vice president, chief Marketing and Sales officer, in coordination with the vice president, Delivery and Post Office Operations:

1. Develop and implement a strategy to identify, evaluate, and offer the most promising additional carrier services.
2. Jointly conduct a pilot test on delivery vehicle advertising and gather sufficient data during the pilot to support the decision to continue or discontinue the concept.

Management's Comments

Management agreed with the first finding and the associated recommendation. Management disagreed with the second recommendation and the associated revenue opportunity.

Regarding recommendation 1, management plans to identify and evaluate opportunities to leverage postal assets, including carrier services. Management stated they already have a strategy in place for identifying and evaluating suggestions, including collaboration with functional groups and external stakeholders to develop concepts for testing and implementation. Management also stated they are committed to exploring revenue-generating opportunities and a number of ideas, such as additional carrier services, to grow revenue. Management further stated they have completed some research and conducted focus group sessions. In addition, they have generated ideas like warehousing and the “mailbox of the future” focus on meeting changing consumer needs and responding to the growth of e-commerce. Management noted that the Postal Service welcomes any and all suggestions and will focus on ideas that offer the greatest revenue opportunities and potential for a successful proof of concept. The target implementation date is October 2015 for the most viable ideas.

Regarding recommendation 2 and the revenue opportunity, management disagreed with conducting a joint pilot test on delivery vehicle advertising and the associated revenue opportunity. Management stated the OIG is not taking into account the implementation costs and the impact on the Postal Service brand. In addition, they believe the revenue opportunity is limited and a pilot test is unnecessary. Management noted that advertising on postal-owned vehicles would dilute the Postal Service brand by introducing another brand or product targeting certain markets and populations. Management also noted they would have to evaluate selling advertising space on delivery vehicles based on a revenue cost analysis, carrier safety and morale, and legal and liability issues. They further stated that additional considerations would be existing competition and a fragmented marketplace where out-of-home advertising is purchased locally or regionally, which would limit opportunities to only high population-density areas. Management concluded the revenue opportunity is limited when weighed against all factors, especially the importance of protecting the brand of the Postal Service – one of the country’s most trusted brands.

See [Appendix C](#) for management’s comments, in their entirety.

Evaluation of Management's Comments

The OIG considers management's comments responsive to recommendation 1 and corrective actions should resolve the issues identified in the finding. The OIG does not consider management's comments responsive to recommendation 2, but does not plan to pursue it through the formal audit resolution process.

The Postal Service disagreed with jointly conducting a pilot test on delivery vehicle advertising and the associated revenue impact. Although the Postal Service is pursuing additional revenue, its financial condition calls for pursuing all viable revenue-generating strategies. Further, advertising on vehicles would not require congressional legislation, and a Postal Service study concluded that placing advertising space on postal-owned delivery vehicles is a viable option. We recognize the \$45.5 million does not include cost associated with the project and that this revenue strategy will not be easy to implement and has some significant challenges. However, by not pursuing this option, the Postal Service is missing an opportunity to increase revenue.

The OIG considers all the recommendations significant, and therefore requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective action is completed for recommendation 1. This recommendation should not be closed in the Postal Service's follow-up tracking system until the OIG provides written confirmation that the recommendation can be closed. Recommendation 2 will be closed with the issuance of this report.

Appendices

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Appendix A: Additional Information

Background

The Postal Service's Delivery Operations has about 233,000 letter carriers. These letter carriers deliver mail on over 217,000 routes using over 190,000 delivery and collection vehicles. From FYs 2010 to 2012, mail volume declined from about 171 to 160 billion mailpieces. The Postal Service had net losses of \$5 billion in FY 2011 and \$15.9 billion in FY 2012.

The Postal Service prepared a *Five-Year Business Plan* to address budget concerns and increase profits. Most of the proposed efforts to reduce budget deficits are cost-cutting initiatives, such as eliminating Saturday delivery, recalculating retirement prefunding obligations, and downsizing the workforce. Revenue-generating opportunities could also improve the Postal Service's finances. Taking advantage of the delivery "last mile" by adding carrier services not directly related to mail delivery could increase revenue and enhance the Postal Service brand.

Objective, Scope, and Methodology

Our objective was to assess opportunities for the Postal Service to add carrier services to its delivery operations. To accomplish our objective, we:

- Researched laws and pending legislation related to adding letter carrier services.
- Examined foreign postal system websites and reviewed prior reports and Risk Analysis Research Center white papers, and had internal conversations to identify some of the added carrier services.
- Conducted and analyzed an OIG-sponsored blog to determine which additional carrier services the Postal Service could offer to generate revenue and sustain a viable presence in communities.
- Interviewed Postal Service Headquarters officials to obtain their feedback on adding carrier services and discussed issues with the National Association of Letter Carriers and National Rural Letter Carriers' Association.
- Obtained and analyzed the Universal McCann media agency's May 21, 2013, Postal Service marketing analysis to determine revenue-generating opportunities and estimated profits from advertising on vehicles.

We conducted this review from January 2013 through June 2014, in accordance with the Council of the Inspectors General on Integrity and Efficiency, *Quality Standards for Inspection and Evaluation*. We discussed our observations and conclusions with management on September 4, 2013, and April 14, 2014, and included their comments where appropriate.

We relied on hour and wage data Postal Service officials provided to support calculations related to advertising on postal-owned vehicles. We determined that the data were sufficiently reliable for the purposes of this report.

Prior Audit Coverage

There were no prior audits. However, the OIG issued a report titled *21st Century Post Office: Non-Postal Products and Services* (Report Number [DA-MA-12-005](#), dated July 16, 2012) that determined the Postal Service could increase the value of Post Office retail facilities and address community needs by evaluating and offering non-postal products and services. The OIG recommended the Postal Service develop a strategy to identify, evaluate, and offer the most promising non-postal products and services, including ways to overcome identified barriers, when legally permitted. Management agreed with the findings and recommendations.

Appendix B: Postal Service Revenue Opportunity – Advertising on Vehicles

Based on a review of the marketing analysis, the Postal Service has an estimated revenue opportunity of \$15,187,765 in FY 2014 and \$30,375,531 in FY 2015 from sales of advertising space on delivery vehicles. The estimate takes into account actual vehicles, limitations in the portions of the market that have dense populations, market saturation, and lack of competitive advantage.

Impact Category	Revenue Opportunity	Fiscal Year
Potential Additional Revenue	\$15,187,765	2014
Potential Additional Revenue	30,375,531	2015
Total	\$45,563,296	

Based on a review of the marketing analysis,¹⁶ the Postal Service has estimated revenue opportunities of \$15,187,765 in FY 2014 and \$30,375,531 in FY 2015 from sales of advertising space on delivery vehicles. The estimate takes into account actual vehicles, limitations in the portions of the market that have dense populations, market saturation, and lack of competitive advantage.

We calculated revenue opportunities of \$15,187,765 in FY 2014 and \$30,375,531 in FY 2015 as follows:

- The Postal Service had 190,897 delivery and collection vehicles as of FY 2012.¹⁷
- The Postal Service estimated it would sell advertisements on 34 percent of its vehicles (or 64,905 vehicles). We reduced that by 50 percent (or 32,452 vehicles) based on the assumptions in the Postal Service's marketing research study. The Postal Service based the 34 percent on vehicles used in more densely populated areas, which it defines as those with a minimum population of 50,000. But Postal Service officials acknowledged that only 50 percent of the more densely populated areas could deliver the sizeable impressions¹⁸ per unit required to be competitive. This led us to reduce by 50 percent the pool of vehicles that present profitable advertising opportunities.
- The Postal Service used our estimated monthly rate of \$300 per advertisement for 12 months. We based the \$300 rate on assumptions in the OIG's management advisory report, *Revenue Generation Strategic Report* (Report Number [MS-MA-10-002](#), dated September 28, 2010).
- The Postal Service estimated that selling advertisements on 32,452 vehicles at a monthly rate of \$300 would generate \$9,735,600 monthly. We reduced this amount by 35 percent to arrive at \$6,328,236 monthly. We based the 35 percent reduction on the Postal Service's marketing analysis, which considered the average sell-through rate of 65 percent in metro markets.¹⁹ The Postal Service estimated it sells about 40-60 percent of total inventory each year in smaller metro markets and 70-90 percent in larger markets, such as New York City.

¹⁶ Universal McCann media agency results dated May 21, 2013. Universal McCann results indicated concern regarding the number of advertisement sales needed to achieve a profit and category restrictions that limit the potential customer base in an effort to maintain the Postal Service's brand name.

¹⁷ The 2012 *Annual Report on Form 10-K* shows the number of vehicles included 1/2 to 2-1/2 ton delivery and collection vehicles for FY 2012. Postal Service Headquarters officials accepted the OIG's actual vehicle number of 190,897, which was 621 more than their estimate of 190,276 delivery and collection vehicles as of FY 2012.

¹⁸ Impression is considered one sign on a postal vehicle. Management stated the standard for minimum impressions is 300,000 units per month.

¹⁹ The 65 percent average represents the universe of advertisers that will continue their service with the Postal Service through an entire year.

Appendix C: Management's Comments



May 20, 2014

JUDITH LEONHARDT
DIRECTOR, AUDIT OPERATIONS

SUBJECT: Draft Management Advisory Report–Delivery Operations–Additional
Carrier Services (DR-MA-14 DRAFT)

The United States Postal Service has reviewed and agrees with the findings and recommendations contained therein; a collective response is as follows:

The Postal Service agrees in substance with the recommendations of the OIG to identify and evaluate opportunities to leverage postal assets, including carrier services. We disagree with the OIG to jointly conduct a pilot test on delivery vehicle advertising.

RECOMMENDATIONS:

We recommend the Vice President New Products & Innovation and Vice President of Delivery Post Office Operations:

1. Develop and implement a strategy to identify, evaluate and offer the most promising additional carrier services.

Agree: The Postal Service agrees that the USPS should consider options for offering additional carrier services that could generate revenue. The USPS already has in place a strategy for identifying and evaluating suggestions, similar to efforts by the Office of Inspector General. Major USPS functional groups and external stakeholders work collaboratively to come up with concepts to test and implement.

The Postal Service is committed to exploring revenue-generating opportunities to improve its finances, in addition to cost-cutting initiatives.

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The USPS is working to identify and evaluate opportunities to leverage postal assets, including carrier services, to achieve additional revenue growth. A number of ideas already are being explored, with research completed and focus group sessions held. These ideas range from warehousing and fulfillment to a "mailbox of the future" that meets changing consumer needs and responds to the growth of e-commerce. While the USPS welcomes any and all suggestions, it will focus on ideas that offer the greatest revenue opportunities and potential for a successful proof of concept.

Responsible Manager: Vice President, New Products & Innovation

Target Implementation Date: October 2015

We recommend the Director Brand Marketing:

2. Jointly conduct a pilot test on delivery vehicle advertising and gather sufficient data during the pilot to support the decision to continue or discontinue the concept.

Disagree: The Postal Service believes the revenue opportunity is limited and a pilot test unnecessary. Historically, the Postal Service is associated with universal service and binding the nation together. Advertising on postal vehicles would dilute the USPS brand identity by introducing another brand or product targeting certain markets and populations. In addition to the impact on brand identity, the suggestion to sell advertising space on delivery vehicles would have to be evaluated on criteria including: revenue cost analysis, carrier safety and morale, and legal and liability issues. Additional considerations are existing competition and a fragmented marketplace where out-of-home advertising is purchased locally or regionally, which would isolate the opportunity to only high population-density areas. The Postal Service finds the revenue opportunity is limited when weighed against these factors, especially the importance of protecting the brand equity of the Postal Service — one of the most trusted brands.

The Postal Service disagrees with the monetary findings overall because the OIG is not taking into account the costs involved and with brand impact of implementation. At this point the revenues indicated are really for Year 1 and Year 2 of launch and no longer match up with FY14 and FY15.

Responsible Manager: NA

Target Implementation Date: NA

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This report and managements' response does not contain information that should be exempt from disclosure under the Freedom of Information Act.



NAGISA M. MANABE
CHIEF MARKETING AND SALES OFFICER
AND EXECUTIVE VICE PRESIDENT



EDWARD F. PHELAN, JR.
VICE PRESIDENT, DELIVERY AND POST OFFICE OPERATIONS

cc: Manager, Corporate Audit Response Management



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